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SUBJECT: U/S JEFFERY AND ITALIAN ENI CEO SCARONI DISCUSS
IRAN AND RUSSIA/GAZPROM

Classified By: U/S Reuben Jeffery III for reasons 1.4 (b) and (d)

11. (C) Summary. Under Secretary Reuben Jeffery met with Italian energy firm Eni's CEO Paolo Scaroni on May 6 in Washington. Scaroni came to Washington seeking U.S. views on Eni's activities in Iran and to discuss its growing relationship with Russia's Gazprom. U/S Jeffery pushed back hard when Scaroni asked how the USG would feel about Eni conducting a feasibility study for building a pipeline from Iran's South Pars fields to Turkey. He emphasized such a project would hurt international efforts to bring Iran to the table over its nuclear program. Regarding Gazprom, U/S Jeffery expressed concern about Europe's increasing dependence on Russian gas. Scaroni explained that Europe needs Russia to meet its growing demand and that the proposed Eni-Gazprom South Stream pipeline will not kill other projects because there is enough demand for all. End summary.

IRAN: U/S JEFFERY OPPOSES ENI'S PROPOSED PIPELINE
FEASIBILITY STUDY

12. (C) Scaroni began by outlining the company's 50-plus years of involvement in Iran. He explained that Eni currently has \$3 billion invested in Iran through two production-sharing agreements ("buy backs") it won in 2001 with French oil company Total, and is only now entering the crucial repayment period. (Comment: The two Eni investments are located in Darkhovin phases 1/2 and South Pars 4/5. End comment.) As a result, Scaroni noted that while Eni does not plan to leave Iran, it is not planning any new investments. He went on to say, however, that Eni is under "lots of pressure" to sign a

new contract to help Iran exploit the South Pars 19/20/21 fields and export the gas in liquefied form. Scaroni stressed Eni is not ready for new projects in Iran, but is considering conducting a feasibility study for building a pipeline from South Pars to Turkey in order to bring gas to Europe. Europe is ""between a rock and a hard place"" and Iran is the only alternative to Russia as a major source for gas supplies. He said the National Iranian Oil Company (NIOC) had recently proposed the pipeline idea to Eni in Rome.

13. (C) Under Secretary Jeffery was clear: the U.S. would ""discourage in the strongest possible terms"" this feasibility study or any new investment in Iran. Observing the UNSC resolutions on Iran, he noted the international community has decided to make short-term commercial sacrifices to bring Iran to the table over its nuclear program. Jeffery emphasized that the U.S. is already ""disappointed"" with Switzerland over Swiss firm EGL's gas deal signed with Iran earlier this year. While the U.S. understands Europe's need for gas, the priority must be to increase the pressure on Iran to comply with the UN Security Council resolutions.

14. (C) Scaroni countered that Eni's proposal was not an investment in the energy sector, just a no-obligation study. As he explained, Eni wants to have a commercial/business ""edge"" for when the world makes peace with Iran and all of Eni's U.S. competitors come into the country, as happened in Libya. Scaroni asked directly if the feasibility study would be acceptable to the U.S. His assistant added that, in Eni's analysis, the study did not violate the Iran Sanctions Act (ISA). Scaroni reassured U/S Jeffery that Eni wants full transparency and would keep Washington informed every step of the way. Downplaying Iran's overall importance to Eni,

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Scaroni commented that Eni is ""number one"" in the European gas market and could easily survive without Iran. Scaroni also said the ""weakness"" on Iran of the recently departed Prodi government was a problem for Eni. Eni wants clear guidance, and the Prodi government's silence made them ""uncomfortable."" Eni is waiting to see what the new Berlusconi government will do. (Comment: The Italian government owns 30 percent of Eni. End comment.)

15. (C) U/S Jeffery reiterated that the U.S. would strongly oppose this study as it would have the same detrimental effects as the Swiss EGL deal. He warned that the Congress is looking to pass even tougher legislation against Iran. Deals like Eni's proposal would only magnify concerns on the Hill that the U.S. should be more aggressive in its approach, even if it meant working less in concert with the international community to stop Iran's nuclear program.

U/S JEFFERY EXPRESSES CONCERN OVER DEPENDENCY ON RUSSIA;
SCARONI SAYS EUROPE NEEDS RUSSIAN GAS

16. (C) When asked by U/S Jeffery why Eni is pursuing the South Stream pipeline project with Gazprom, Scaroni replied bluntly that Europe needs Russian gas. According to Eni, Europe will require 200-300 billion cubic meters (bcm) of additional gas over the next 10-15 years, and Russia will provide half of this increase. South Stream is a worthy project because it is better to obtain gas directly from Russia and avoid future Russia-Ukraine disputes. Besides, with Eni's experience building the Blue Stream pipeline with

Gazprom, his company is the only one capable of constructing South Stream.

17. (C) In response to U/S Jeffery's question about other pipelines, Scaroni replied that Eni did not get behind Nabucco because there is not enough gas to supply it. He said Eni has nothing against Nabucco and denied that South Stream would damage the prospects for other projects because it will mostly replace Russian gas currently flowing through the Friendship Pipeline in Ukraine. (He said Russia has an "obsession" with bypassing Ukraine.) Of the 30 bcm to flow through South Stream, only 10 bcm will be new supply. There is enough future demand from Europe to fill Nabucco, South Stream, and more. When asked about the cost of South Stream, Scaroni said the \$15)20 billion price tag is half the cost of an LNG-equivalent chain. He claimed the cost of a 5 bcm liquefaction facility was now about \$5 billion, not including the cost of ships and regasification at the delivery end. In addition, Scaroni observed, the LNG manufacturing and shipping process consumes 12 percent of any gas involved, delivering only 88 percent. By contrast, a pipeline only consumes about 6 percent of its gas, making it more efficient.

18. (C) U/S Jeffery said that the U.S. is concerned about Europe's growing dependency on Russia for energy. Scaroni acknowledged these concerns, admitting: "The more I know the Russians, the more I get worried." But Eni is expanding a pipeline from Algeria, building one from Libya and seeking to site LNG facilities in Italy. As to Gazprom as a commercial partner, Scaroni said Eni's relationship with them was "perfect." They are bureaucratic and take a long time to make decisions, but they are reliable. Scaroni downplayed concerns about Eni's cooperation with Gazprom in North Africa. When Eni bought a gas property in Russia under its strategic agreement with Gazprom, it had to offer to Gazprom assets outside Russia. He also clarified that the asset swap is for a share in a Libyan oil field, not gas. Regarding Algeria, Scaroni said Gazprom and the Algerians are talking

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all the time and do not need Eni's help to make a cartel if they so choose.

19. (C) Comment: This was a cordial but frank meeting. Scaroni attempted to draw a link between seeing a full return on its \$3 billion investment in Iran and Eni's willingness to be responsive to Iranian requests, such as the feasibility study. That said, it is clear Eni does not wish to wind up on the wrong side of USG sanctions. At the same time, Scaroni was frank and open about Eni's intention to continue, or even expand, its business relationship with Gazprom since Russia will continue to be the primary source for increased European energy demand. End comment.

110. (U) Participants: Eni (Italy) - CEO Paolo Scaroni, Leonardo Bellodi, and Enzo Viscusi. USG - U/S Reuben Jeffery, EEB DAS Douglas Hengel, E staff Robert Winchester and Thomas Pierce, EUR/WE notetaker Kevin Opstrup.

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